

First Level Pricing Challenge May 6, 2009

Code:	SWPC03889
Description:	MORGAN STANLEY DEAN WITTER
Pricing date:	05-May-2009
Request date:	06-May-2009

Welcome to the StatPro Complex Asset Pricing automated support service. The main purpose of this document is to describe how the value of the specified contract was computed. This document contains a summary of the pricing evaluation; the terms and conditions of the contract; a short description of the pricing model; and a detailed list of market data used in the evaluation.

1 Evaluation summary

NPV evaluation	2595.44 USD
Code	SWPC03889
Product	MORGAN STANLEY DEAN WITTER
User	DCintoli
Requested date	06-May-2009
Requested time	10:38
Pricing date	05-May-2009
Pricing time	20:05
Customer Name	testcustomer
Evaluation Id	449153

Day count	Act/360
Adjusted?	1
Side	Receive
Maturity date	20-Dec-2013
Notional	100000
Settlement days	2
Rolling convention	ModifiedFollowing
Frequency	4
Restructuring	RR
Spread	0.0408
Seniority	SEN
Calendar	TARGET
Start date	14-NOV-2008
Issuer code	MOST

2 Terms and conditions

This section lists the terms and conditions present in the CAP database at the time of evaluation.

The holder of the pay side of a credit-default swap is buying insurance on the default of a certain name. Given a certain notional, the insurance premium due is a fixed-rate percentage of the notional. In case of default, the holder of the swap receive side has the obligation to reimburse an obligation issued by the insured name at face value.

3 Model and risk factors

This section contains a brief description of the model used to evaluate the instrument.

Cash-flow discounting and default probability

The present value of the instrument is computed by adding the present value of all the expected received cash flows, and subtracting the present value of all expected paid cash flows. Before discounting, each cash flow is multiplied by the issuer survival probability if the payment is to be made by the issuer, and by the issuer default probability if the payment is due when the issuer defaults. Finally, all probability-weighted cash flows are multiplied by the risk-free discount factor at their payment date.

Risk-free piecewise-flat forward yield curve

The discount factor is obtained by bootstrapping the yield curve from the deposit and swap rates quoted on the underlying contract currency. The curve nodes are chosen to match the maturities of the deposit and swap instruments used in the bootstrap process. Therefore, at the curve nodes the discount factor is determined by the given deposit and swap rates. In between curve nodes, the discount factor is computed assuming a constant continuously-compounded instantaneous forward rate. For maturities longer than that of the longest swap, the discount factor is calculated by assuming an instantaneous forward rate equal to that of the computed node with the longest maturity.

Piecewise-flat-hazard-rate default probability

For each issuer name the default probability is obtained from the quoted spreads of the single-name credit-default swaps on that issuer name. The curve nodes are chosen to match the maturities of the credit-default swaps used in the bootstrap process. At the curve nodes the default probability agrees with that of the quoted credit-default swaps. In between curve nodes, the default probability is computed assuming a constant hazard rate. For maturities longer than that of the longest credit-default swap, the default probability is calculated by assuming a hazard rate equal to that of the computed node with the longest maturity.

4 Market data

This section contains a subsection for each price component used to evaluate the instrument.

Yield curve cap-pff-USD

The market data used to bootstrap the cap-pff-USD interest-rate term structure are shown below.

Deposit Rates	
Maturity	Rate
1w	0.321 %
1m	0.401 %
2m	0.806 %
3m	0.986 %
6m	1.540 %
12m	1.859 %

Swap Rates

Maturity	Rate
2y	1.478 %
3y	1.934 %
4y	2.312 %
5y	2.596 %
6y	2.818 %
7y	2.982 %
8y	3.101 %
9y	3.202 %
10y	3.284 %
11y	3.364 %
12y	3.434 %
13y	3.495 %
14y	3.545 %
15y	3.582 %
20y	3.648 %
25y	3.661 %
30y	3.685 %

Issuers

The issuer names are listed below (there could be one or more). Next to each issuer a recovery ratio, used for that name, is shown.

Issuer	Recovery ratio
MOST_000001	0.4

Single-name CDS spreads

The spreads for the quoted credit-default swaps for each name are shown below.

Issuer MOST	
Maturity	Value
3m	4.989 %
6m	4.989 %
1y	4.981 %
2y	4.453 %
3y	4.025 %
4y	3.785 %
5y	3.641 %
6y	3.452 %
7y	3.263 %
8y	3.174 %
9y	3.096 %
10y	3.018 %
11y	3.012 %
12y	3.008 %
15y	2.998 %
20y	2.989 %
30y	2.982 %